



Netwatch

BY JIM CARROLL

YOUR GUIDE TO BUSINESS & ACCOUNTING ON THE INTERNET

The era of social accounting

After an old friend and business colleague read my last column, in which I wrote about social networking and Web 2.0, he asked me an interesting question: "Isn't some of this stuff just like some of the stuff people have been doing for the past 25 years?"

That's true, to a degree. People have been communicating online for nearly 30 years with a variety of technologies. What's changing is the sophistication of the tools that we use. More important, though, we continue to learn new ways of interacting and collaborating, sharing insight and understanding information. A tremendous amount of brain-capital is being devoted to figuring out how to access, store and extract value from absolutely huge volumes of shared information (see "How much information?"). Isn't this something we should be thinking about doing with the flood of financial data being generated?

Could our future opportunity lie in the same type of collaborative, social insight that we see with Web 2.0? Perhaps the social networking revolution is leading us to a new era of "social accounting."

Here's an example of what I'm getting at. One of the most innovative companies I've encountered in the past few years is a video-game distributor. It has one core mission: to make sure new games get from the product manufacturer to the retailer on time. According to the distributor's CIO, 45% to 60% of the total life revenue stream of a typical video game is made within the first four days of its release. That's why the company is relentlessly, aggressively focused on operational excellence — its entire culture, information system, management structure and organizational objective is focused on excelling in that four-day period.

Once management understood this, they looked at the data at their disposal. There was a huge, gaping hole: the company's financial system told them nothing about what was happening with the product on the shelves of their customers: large chain stores, small computer-game stores and online distribution partners.

At that point, management had an idea that is mind-boggling in its simplicity. Most companies think about

how technology can run *their* business better. They realized they could do great things, such as solving their issue of lack of market insight, by asking what can we do to run our *customer's* business better? They focused on that concept and put sophisticated financial tools in place to help them understand the issue — and in doing so, learned how to maximize revenue and operations capability for those crucial four days.

In other words, their financial solution involved a collaboration or new form of interaction with a business partner. Extend that line of thinking to all the company's business partners and they've put in place a form of social accounting.

Of course, this situation isn't limited to the video-game industry — accelerated innovation and rapid time to market is becoming a key factor in every industry. As a result, it's not unusual to have short, sharp shocks of revenue hits, with a good chunk of total lifecycle revenue happening in just a few days.

Financial systems can play a huge role here if we alter our view of them: less as tools to record and manage the information within companies, more as a way to manage the social connections we have with our suppliers, customers and other business partners. With this simple change in mindset, we'll discover fascinating and ultimately more profitable means of managing our organizations.

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HOW MUCH INFORMATION?

- *Business Week* noted that in 2006, we collectively generated some 161 billion gigabytes — or 161 exabytes — of information, including text, video, pictures, graphics and more
- you'd need two billion iPods to store it all
- that would equal 12 stacks of books from the Earth to the sun